



**Washington State
Health Care Authority**

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May 31, 2006

Mr. Thomas Hoemann
Secretary of the Senate
Washington State Senate
P.O. Box 40482
Olympia, WA 98504-0482

Mr. Rich Nafziger
Chief Clerk of the House
House of Representatives
P.O. Box 40600
Olympia, WA 98504-0600

Dear Mr. Hoemann and Mr. Nafziger:

The Health Care Authority is pleased to submit the final report to the Legislature on the Health Coverage Tax Credit (HCTC) program as directed by Engrossed Substitute House Bill 2797, Chapter 192, Laws of 2004. My staff and I will be glad to address any questions you may have concerning this final report. The report evaluates the HCTC program and the impact of HCTC enrollment on Basic Health.

Sincerely,

Steve Hill
Administrator

Enclosure

cc: Senator Karen Keiser, Chair, Senate Health & Long-Term Care Committee
Senator Alex Deccio, Ranking Minority Member, Senate Health & Long-Term Care Committee
Representative Eileen Cody, Chair, House Health Care Committee
Representative Bill Hinkle, Ranking Minority Member, House Health Care Committee
Jonathan Seib, Staff Coordinator/Counsel, Senate Health & Long-Term Care Committee
Dave Knutson, Research Analyst, House OPR
Christina Hulet, Governor's Policy Office
Nick Lutes, Office of Financial Management
Mark Rupp, Governor's Policy Office



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June 1, 2006

Final Report to the Legislature on the Health Coverage Tax Credit (HCTC) Program

Providing Access to Basic Health to HCTC Eligibles under the Federal Trade Act of 2002

The Washington State Legislature directed the [Washington State Health Care Authority](http://www.hca.wa.gov) (HCA) to implement a health insurance coverage program for HCTC eligibles by January 2005, through the adoption of [Engrossed Substitute House Bill 2797](#) (ESHB 2797). ESHB 2797 was signed by Governor Gary Locke on March 26, 2004, and enacted as Chapter 192, Laws of 2004. The Office of the Insurance Commissioner (OIC) approved the [Health Care Authority's Basic Health Plan](#) (BH) as the HCTC qualified health plan for eligible HCTC participants as required by federal law. The HCTC program was implemented on January 1, 2005. The legislation mandated that the HCA submit three reports to the Legislature on the HCTC program and the impact of HCTC enrollment on Basic Health (BH). Status reports were submitted by the HCA in June 2005 and January 2006. This is the final HCTC report.

Overview of ESHB 2797 Basic Health HCTC Program

This bill created a new category of Basic Health (BH) enrollee, known as "Health Coverage Tax Credit Eligible Enrollee" (HCTC enrollee), in addition to the regular subsidized enrollees already in BH.

HCTC eligible enrollees for this new BH sub-program are those workers, and their family members, who lose their jobs due to the effects of international trade, as determined by the federal government under the Trade Act of 2002, or who are at least 55 years old and receive pension benefits from the Pension Benefit Guaranty Corporation.

As a "qualified plan" BH guarantees issue of coverage, waives the pre-existing condition waiting period for HCTC enrollees who had at least three months' creditable coverage with no more than a 62-day break in coverage, and is uniform in pricing and benefit design.

When enrolled in BH, HCTC individuals' premiums are subsidized at 65 percent through the Internal Revenue Service (IRS). Although BH has an enrollment cap, HCTC enrollees are not to be constrained by the 100,000 member program limit that is in effect

on the regular subsidized population. The state of Washington does not subsidize premiums for HCTC enrollees.

The Washington State Office of the Insurance Commissioner (OIC) and the federal government certified BH as a qualified plan. The HCTC program was implemented on January 1, 2005.

HCTC processes continue to be difficult to navigate due to the complexities of coordinating with the federal government on eligibility and payments. BH made some modifications to existing processes, specific to HCTC enrollment, in order to meet federal requirements to be a qualified health plan, including:

- Enroll all who apply as IRS-certified HCTC applicants, regardless of their income, residence, or other criteria or limitations that would apply to subsidized Basic Health.
- Waive the nine-month pre-existing condition waiting period for those HCTC enrollees who had at least three months' creditable coverage with no more than a 62-day break in coverage at the time of application. The usual Basic Health rules for pre-existing conditions and portability will be applied to those HCTC applicants who had a break in coverage of 63 days or more at the time of application.

BH also made modifications to the enrollment and payment timelines to accommodate the IRS payment timelines to the extent possible without extending credit to these enrollees. While BH implemented some automated processes, many HCTC processes continue to be manual. Timelines for HCTC are not the same as for most BH enrollment and the enrollment numbers do not warrant the cost of system modifications to automate those processes.

HCTC Evaluations and Reports

ESHB 2797 requires the HCA to "...evaluate, with the cooperation of participating managed health care system providers, the impact on the basic health plan of enrolling health coverage tax credit eligible enrollees. The administrator shall issue to the appropriate committees of the legislature preliminary evaluations on June 1, 2005, and January 1, 2006, and a final evaluation by June 1, 2006. The evaluation shall address the number of persons enrolled, the duration of their enrollment, their utilization of covered services relative to other basic health plan enrollees, and the extent to which their enrollment contributed to any change in the cost of the basic health plan."

The 2006 reports require ad hoc and special data runs and an evaluation design outside the established data and time frames for the HCA. The HCA has made use of our consulting actuary, [Milliman USA](#), and gathered utilization data not normally available at those time frames from our carriers. The HCA has worked with its contracted health plans to obtain available data, using calendar year 2005 utilization and related data. Enrollment numbers have remained small, however, minimizing the value of this data.

Enrollment began in January 2005, and the table below reflects enrollment activity as of May 2006 compared to December 2005 and May 2005. All persons who are eligible for the HCTC program are notified of their eligibility. They are directed to information regarding the options available to them in this state, including Basic Health. The **IRS Web site** (<http://www.irs.gov/individuals/article/0,,id=109960,00.html>) lists Basic Health as a qualified health plan for Washington State and includes contact information. The federal HCTC program identified approximately 3,944 potentially eligible persons (primary candidates, not including family members) in Washington State as of March 2006. Of those, 235 persons were enrolled through their COBRA option and 27 were enrolled through BH. Enrollment in BH has increased slightly over the months, but remains very small.

HCTC Member Demographics								
HCTC Participant Snapshot					HCTC Age Demographics			
Category	Number				Category	Average Age		
	May 2005	December 2005	May 2006			May 2005	December 2005	May 2006
Total	22	38	49		All participants	48.1	52.7	54.0
Adults	19	35	45		Adult Males	56.8	57.5	58.3
Children	3	3	4		Adult Females	51.2	54.1	56.4
Males	12	18	21		Children	11.7	16.7	17.3
Females	10	20	28		Subscribers	55.4	57.0	58.1
Subscribers	12	21	27		Spouses	51.1	54.0	55.9
Dependents*	10	17	22					
Average length of enrollment	2 months	6 months	10 months					

* Dependents include spouses and children.

The HCTC population requires a higher administrative effort than other BH enrollment because of the complexities of the program, the interface with the IRS, and additional reporting requirements.

In contracting with health plans, the HCA has allowed an adjustment to the rates paid to health plans for HCTC enrollees. For 2006 contracts, this adjustment was \$12.40 per member per month. This additional charge is built into the rates for these enrollees to cover the additional cost of providing maternity coverage and waiving the waiting period for coverage of pre-existing conditions. Rates must otherwise be the same as the rates

charged for all other BH enrollees and cannot be adjusted to reflect the plans' experience with this population. The entire rate is paid by the enrollee and the IRS, so there is no increase in the cost to the state.

Utilization is more difficult to quantify, given the small number of enrollees in this program. We asked our actuaries at Milliman USA to review and analyze the limited data that has been provided by our health plans. In total, the five reporting health plans have 267 member months of experience in 2005 (the equivalent of approximately 22 annual members). While the associated claim experience has limited credibility, it is good news for the program that each plan is reporting favorable profitability on these clients. In fact, the health plans are reporting no inpatient admissions for the HCTC population in calendar year 2005. Given these early results, we expect that the HCTC population will not negatively impact the upcoming 2007 procurement for the Basic Health program. However, we note that as the enrollment increased over the past year, the average age of the population in the HCTC program has also increased.

Based on the above information, we conclude that the HCTC population has not been large enough to have an impact on the Basic Health program. Should the HCTC population substantially increase, however, there would likely be additional administrative costs and potentially an impact on health plan rates.

Follow-up questions can be addressed to:

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